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LOCAL GOVERNMENT PENSION SCHEME

1. With the approval of Ministers, I enclose for your comments, *'Facing the Future - Propositions and Principles for an Affordable and Sustainable Local Government Pension Scheme'*, a consultation document about the future of the Local Government Pension Scheme (the LGPS) in England and Wales. The closing date for the receipt of your responses is 31 March 2005.

Purpose

2. Your views are being sought on how best to take forward the development of the LGPS to make it more attractive, affordable and sustainable for those who are members of it, for those who provide its benefits and for taxpayers who ultimately guarantee its security. To ensure the retention of the LGPS as a funded, final salary public service pension scheme it is essential that it is kept under regular review, to ensure it continues to demonstrate to providers, and to tax payers in particular, good value for money.

Stocktake and Strategy

3. The previous two phases of the Stocktake exercise and much associated liaison with LGPS interests in England and Wales, have established several important areas of possible change to the current Scheme. Following a series of helpful consultations, considerable preparatory groundwork ensured that the regulatory programme of amendments to the Scheme first announced by Ministers in July 2003, focussed on the longer term development of the LGPS, as well as a shorter term need to stabilise the affordability of the current Scheme - an essential pre-requisite on which to build substantive change.
4. This consultative stage, which now begins the third and final phase of the Stocktake exercise, starts, therefore, from a position of stability provided by the regulatory changes of 2004 and those proposed for 2005. Going forward, the LGPS needs to

retain the best elements of the current Scheme and for these to be associated with the development of new, relevant and flexible elements, in close consultation with key stakeholders, to create a new-look LGPS. Consequently, the enclosed document provides several new elements for possible future inclusion in any new Scheme. This is a real opportunity for change within the statutory framework currently provided by the Scheme.

Principles and Propositions

5. The consultation document, therefore, sets out a series of principles and propositions for the future of the LGPS, and a challenging outline timetable within which any subsequent necessary regulatory changes would need to take place.
6. Ministers wish to see a strong engagement by all LGPS stakeholders during this consultation phase and beyond. A Development Group is to be established to provide an informed source of discussion and comment on the consultation material and the issues it raises. Representatives of the key stakeholder interests are to be invited to join it. Arrangements are being made to convene an early first meeting.
7. The LGPS must be regulated on the basis of fairness and affordability. Ensuring an equitable balance, therefore, between the provision of the pension promise by the Scheme and the cost of that provision remains essential. A modern pension package is needed which not only promotes a high take-up by employees but which remains affordable to employers and cost-effective to all Scheme interests.
8. The consultation document suggests the retention of several existing elements of the current Scheme, particularly those concerning its financial and actuarial basis. More challenging, however, are those propositions and principles now put forward as the basis for a new-look LGPS. These new elements, on which views are being sought, include a change to the accrual rate, equitable employee contribution rates, an improvement to death in service benefits, the expansion of survivor benefits to partners and cohabitants, flexible retirement options, access to a defined contribution option and improved ill health benefits for those incapable of employment.
9. The advice on the costs of introducing new arrangements along the lines set out in the consultative document have been discussed with the Government Actuary's Department. More detailed investigation and analysis of the costings for a new Scheme will, of course, be necessary as the project develops.

Timetable and Next Steps

10. The consultation document sets out in Section D an outline timetable of the next steps following the consultative period. A realistic target implementation date for any 'new' Scheme is 1 April 2008. This allows for any new regulatory framework to be in place from April 2007. In the interim, there are several important stages of analysis, development and, of course, consultation. Stakeholders' views are invited on the more detailed aspects of the future elements of the exercise which are just beginning.
11. Comments are also invited on a longer term approach to the existing provisions dealing with discretionary compensation arrangements for local government as discussed in Section B of the document. This will have to be developed and

implemented before any new-look Scheme due to the need to comply with forthcoming age discrimination legislation by no later than October 2006. The intention would be, therefore, to hold an earlier consultation on amending draft regulations to the current Scheme to meet this timetable.

12. Similarly, provisions to be introduced by the Finance Act 2004 are programmed to take effect from April 2006. Your initial comments on these changes, summarised in Section B, will lead to a statutory consultation exercise in Spring 2005, so that amendments can be in place by April 2006.

Responses

13. Comments on the consultation document as a whole should be sent, no later please than 31 March 2005, to Nicola Rochester, Local Government Pensions Division, Office of the Deputy Prime Minister, Zone 2/E6, Ashdown House, 123 Victoria Street, London SW1E 6DE. Responses may be e-mailed to lgpensions@odpm.gsi.gov.uk.
14. As always, the highly effective liaison arrangements which exist with LGPS interests in England and Wales, including, of course, professional bodies and employees' representatives in a variety of local, regional and national fora will ensure an informed and authoritative response. Any specific requests for additional opportunities to discuss the consultation material will be positively received.

T B J Crossley

ADDRESSEES

The Chief Executive of:

- County Councils (England)
- District Councils (England)
- Metropolitan Borough Councils (England)
- Unitary Councils (England)
- County and County Borough Councils in Wales
- London Borough Councils
- South Yorkshire Pension Authority
- Tameside Metropolitan Borough Council
- Wirral Metropolitan Borough Council
- Bradford Metropolitan City Council
- South Tyneside Metropolitan Borough Council
- Wolverhampton Metropolitan Borough Council
- London Pension Fund Authority
- Environment Agency.
- National Probation Service for England and Wales

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The Secretaries of: -

- Local Government Association
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